

**REPORT OF THE AUDIT OF THE  
PERRY COUNTY  
SHERIFF'S SETTLEMENT - 2007 UNMINED COAL TAXES**

**For The Period  
September 14, 2007 Through July 31, 2008**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE PERRY COUNTY SHERIFF'S SETTLEMENT - 2007 UNMINED COAL TAXES**

**For The Period  
September 14, 2007 Through July 31, 2008**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2007 Unmined Coal Taxes for the Perry County Sheriff for the period September 14, 2007 through July 31, 2008. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

#### **Financial Condition:**

The Sheriff collected taxes of \$1,664,228 for the districts for 2007 - Unmined taxes, retaining commissions of \$60,563 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,603,287 to the districts for 2007 - Unmined Coal Taxes. Taxes of \$132 are due to the districts from the Sheriff.

#### **Report Comments:**

- The Sheriff Should Enter Into A Written Agreement To Protect Deposits
- The Sheriff Should Strengthen Internal Controls Over Tax Processing Procedures
- The Sheriff's Office Lacks Adequate Segregation of Duties

#### **Deposits:**

The Sheriff's deposits as of April 4, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$1,959,122



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Denny Ray Noble, Perry County Judge/Executive

Honorable John Leslie Burgett, Perry County Sheriff

Members of the Perry County Fiscal Court

Independent Auditor's Report

We have audited the Perry County Sheriff's Settlement - 2007 Unmined Coal Taxes for the period September 14, 2007 through July 31, 2008. This tax settlement is the responsibility of the Perry County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Perry County Sheriff's taxes charged, credited, and paid for the period September 14, 2007 through July 31, 2008, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 29, 2009 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Denny Ray Noble, Perry County Judge/Executive

Honorable John Leslie Burgett, Perry County Sheriff

Members of the Perry County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Enter Into A Written Agreement To Protect Deposits
- The Sheriff Should Strengthen Internal Controls Over Tax Processing Procedures
- The Sheriff's Office Lacks Adequate Segregation of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen

Auditor of Public Accounts

June 29, 2009

PERRY COUNTY  
JOHN LESLIE BURGETT, SHERIFF  
SHERIFF'S SETTLEMENT - 2007 UNMINED COAL TAXES

For The Period September 14, 2007 Through July 31, 2008

<u>Charges</u>	<u>County Taxes</u>	<u>Special</u>		<u>State Taxes</u>
		<u>Taxing Districts</u>	<u>School Taxes</u>	
Official Receipt	\$ 208,564	\$ 400,063	\$ 839,492	\$ 269,395
Penalties	265	503	1,062	343
Gross Chargeable to Sheriff	<u>208,829</u>	<u>400,566</u>	<u>840,554</u>	<u>269,738</u>
<u>Credits</u>				
Exonerations	1,242	2,354	5,003	1,604
Discounts	3,895	7,470	15,694	5,030
Delinquent Real Estate	1,608	3,049	6,433	2,077
Total Credits	<u>6,745</u>	<u>12,873</u>	<u>27,130</u>	<u>8,711</u>
Taxes Collected	202,084	387,693	813,424	261,027
Less: Commissions (a)	<u>8,589</u>	<u>16,477</u>	<u>24,403</u>	<u>11,094</u>
Taxes Due	193,495	371,216	789,021	249,933
Taxes Paid	193,465	371,117	788,808	249,897
10% Penalty				3
Refunds (Current and Prior Year)	<u>30</u>	<u>58</u>	<u>122</u>	<u>39</u>
Due Districts	<u>\$ 0</u>	<u>\$ 41</u>	<u>\$ 91</u>	<u>\$ 0</u>
		(b)	(c)	

(a), (b), (c) - See Next Page.

The accompanying notes are an integral part of this financial statement.

PERRY COUNTY  
 JOHN LESLIE BURGETT, SHERIFF  
 SHERIFF'S SETTLEMENT - 2007 UNMINED COAL TAXES  
 For The Period September 14, 2007 Through July 31, 2008  
 (Continued)

## (a) Commissions:

4.25% on \$850,804

3% on \$813,424

## (b) Special Taxing Districts:

Library District	\$	28
Health District		7
Extension District		6
		<hr/>

Due Districts	\$	<u>41</u>
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## (c) School Districts

Common School	\$	<u>91</u>
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Due School District	\$	<u>91</u>
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PERRY COUNTY  
NOTES TO FINANCIAL STATEMENT

July 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the depository institution did not have a written agreement with the Sheriff securing the Sheriff's interest in the surety bond provided as collateral.

PERRY COUNTY  
NOTES TO FINANCIAL STATEMENT  
July 31, 2008  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Perry County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On April 4, 2008, the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured      \$1,959,122

Note 3. Tax Collection Period

Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2007. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 26, 2008 through July 31, 2008.

Note 4. Interest Income

The Perry County Sheriff earned \$532 as interest income on 2007 - Unmined Coal Taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Perry County Sheriff collected \$2,031 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Perry County Sheriff collected \$330 of advertising costs and \$160 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Denny Ray Noble, Perry County Judge/Executive  
Honorable John Leslie Burgett, Perry County Sheriff  
Members of the Perry County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Perry County Sheriff's Settlement - 2007 Unmined Coal Taxes for the period September 14, 2007 through July 31, 2008, and have issued our report thereon dated June 29, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Perry County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Perry County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Perry County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- The Sheriff Should Strengthen Internal Controls Over Tax Processing Procedures
- The Sheriff's Office Lacks Adequate Segregation of Duties



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Perry County Sheriff's Settlement - 2007 Unmined Coal Taxes for the period September 14, 2007 through July 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Enter Into A Written Agreement To Protect Deposits

The Perry County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Perry County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

June 29, 2009

COMMENTS AND RECOMMENDATIONS



PERRY COUNTY  
JOHN LESLIE BURGETT, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period September 14, 2007 Through July 31, 2008

STATE LAWS AND REGULATIONS:

The Sheriff Should Enter Into A Written Agreement To Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of April 4, 2008, the Sheriff had bank deposits of \$2,059,122; FDIC insurance of \$100,000; and surety bond provided as collateral pledged of \$5,100,000. Even though the Sheriff obtained sufficient collateral of \$5,100,000, there was no written agreement between the Sheriff and the depository institution, signed by both parties, securing the Sheriff's interest in the surety bond provided as collateral. We recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the surety bond provided as collateral. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Sheriff's Response: A written agreement to protect deposits has already been entered into with all financial institutions.*

INTERNAL CONTROL - MATERIAL WEAKNESSES:

The Sheriff Should Strengthen Internal Controls Over Tax Processing Procedures

The Sheriff implemented a semi-paperless, computerized, tax processing software for the 2007 tax cycle. This software maintained all tax bills and processed payments electronically, so that the use of pre-printed triplicate tax bills was eliminated. Software users have the ability to alter or delete payments, as well as add and delete additional tax bills. In the event that payments are altered or deleted, the payment journal generated by the tax software does not include documentation of the user's actions. Similarly, any tax bills entered in the software by an employee of the Sheriff's office can also be deleted at the discretion of any user. We recommend the Sheriff strengthen internal controls over tax processing procedures by limiting the abilities of users and by implementing compensating controls to document completeness of documents generated by the tax software. Examples of internal controls and/or compensating controls that could help achieve this objective include:

- Limiting the ability to delete payments and/or tax bills to one employee, who does not have the responsibility of accepting tax payments or creating new bills in the tax software.
- Printing void payments reports for all cash drawers as part of the daily checkout procedures. The Sheriff could review these reports for validity. The Sheriff should date and initial these reports to document his oversight.

PERRY COUNTY  
JOHN LESLIE BURGETT, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period September 14, 2007 Through July 31, 2008  
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

The Sheriff Should Strengthen Internal Controls Over Tax Processing Procedures (Continued)

- Ensuring all receipts are accounted for within daily batches. The software automatically assigns receipt numbers as payments are recorded. The closing procedures could include accounting for the entire numerical sequence of receipts issued daily. If a receipt has been voided, it should be retained in numerical order within the daily batch and be marked void.

*Sheriff's Response: I will do everything feasible to correct these problems.*

The Sheriff's Office Lacks Adequate Segregation of Duties

Segregation of duties over accounting functions of cash collection, cash disbursement, and reconciliation of bank records to source documents or implementation of compensating controls when limited by the number of staff is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. A lack of segregation of duties exists over the cash receipt and cash disbursement functions at the Sheriff's office. One employee's duties include collecting cash, recording taxes paid daily, preparing bank deposits, preparing monthly tax reports, preparing checks, and reconciling the bank account.

A limited budget places restrictions on the number of employees the Sheriff's office can hire. When faced with limited staff, strong compensating controls should be in place to offset the lack of segregation of duties. A lack of segregation of incompatible duties or strong oversight could result in misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department for Local Government, which could occur but go undetected.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties of the employee noted above. If, due to the limited number of staff, that is not feasible, strong oversight over those areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could also provide this oversight. If the Sheriff does implement compensating controls, these should be documented on the appropriate source document.

*Sheriff's Response: A limited budget restricts the number of employees I can hire. I will implement stronger compensating controls to improve organizational oversight.*

